

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4936-01  
Bill No.: SB 923  
Subject: Insurance - Property; Insurance Dept.; Emergencies  
Type: Original  
Date: February 22, 2010

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Bill Summary: Establishes the Missouri Catastrophe Fund to help protect property and casualty insurers against insolvencies caused by earthquakes.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$135,564)	(Unknown less than \$261,852)	(Unknown less than \$270,470)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$135,564)</b>	<b>(Unknown less than \$261,852)</b>	<b>(Unknown less than \$270,470)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Missouri Catastrophe	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Missouri Catastrophe	4	4	4
<b>Total Estimated Net Effect on FTE</b>	<b>4</b>	<b>4</b>	<b>4</b>

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of Administration (COA) - Division of Accounting, Department of Public Safety - State Emergency Management Agency, and Missouri Senate** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Office of the Governor (GOV)** assume the proposal will have no fiscal impact on their organization. However, if additional duties are placed on the office related to appointments in other TAFP legislation, there may be the need for additional staff resources in future years.

Officials from the **COA - Division of Budget and Planning (BAP)** assume the proposal will have no fiscal impact on their organization. The BAP anticipates that the proposal would increase total state revenue and 18c, but defers to the Department of Insurance, Financial Institutions, and Professional Registration for specific estimates.

Officials from the **Office of Secretary of State (SOS)** state the fiscal impact for this proposal is less than \$2,500. The SOS does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the SOS can sustain within its core budget. Therefore, the SOS reserves the right to request funding for the costs of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state the department has many duties under this proposal. The DIFP will require one (1) Insurance Regulatory Manager, Band 1 FTE, two (2) Product Analyst II FTEs, one (1) Actuary FTE, \$200,000 in one-time contract programming and \$20,000 in ongoing contract programming to implement this program. The insurance regulatory manager would be responsible for supervision of personnel, developing rules, policies and contract procedures. The insurance product analysts would review policies, administer the reimbursement contract, assist with rule promulgation and publication of fund information in the Missouri Register, and review other documentation received by the fund. The actuary would be required to ensure the premiums paid into the fund are actuarially indicated, monitor the retention multiples and assist in selecting the independent consultant to determine the premiums collected by the fund. The insurance regulatory manager, insurance product analysts and the actuary would also support the Missouri Catastrophe Fund Advisory Council in its duties. The contract programming is needed to setup the appropriate database for tracking, monitoring and disbursing fund moneys as well as capturing company information.

ASSUMPTION (continued)

The DIFP assumes if revenue bonds are required to be issued that the department would use an outside firm. The cost of issuing the revenue bonds, including the use of an outside firm, would be requested in future budget or supplemental budget requests.

The DIFP assumes 362 property and casualty insurance companies covering residential structures may pay the initial \$1,000 premium to startup the administration of the fund (362 companies X \$1,000 = \$362,000). The department has made no estimate on the amount of ongoing premium received into the fund. This will depend upon several factors that cannot be determined until the fund is created, i.e. insurance companies selection of the retention multiple.

**Oversight** assumes since the initial premiums are not enough to cover anticipated expenses that General Revenue funds would be used to make up the difference between premiums and costs incurred by the DIFP for the Missouri Catastrophe Fund.

Officials from the **Office of State Treasurer** did not respond to our request for a statement of fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE FUND</b>			
<u>Transfer-Out to DIFP</u>			
To cover costs of Missouri Catastrophe Fund	<u>(\$135,564)</u>	<u>(Unknown less than \$261,852)</u>	<u>(Unknown less than \$270,470)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$135,564)</u></b>	<b><u>(Unknown less than \$261,852)</u></b>	<b><u>(Unknown less than \$270,470)</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>MISSOURI CATASTROPHE FUND</b>			
<u>Income - DIFP</u>			
Initial setup premium	\$362,000	\$0	\$0
Premiums	<u>\$0</u>	<u>Unknown over</u> <u>\$100,000</u>	<u>Unknown over</u> <u>\$100,000</u>
Total <u>Income</u> - DIFP	<u>\$362,000</u>	<u>Unknown over</u> <u>\$100,000</u>	<u>Unknown over</u> <u>\$100,000</u>
<u>Transfer-In to DIFP</u>			
To cover cost of Missouri Catastrophe Fund	\$135,564	Unknown less than \$261,852	Unknown less than \$270,470
<u>Costs - DIFP</u>			
Personal service (4 FTE)	(\$174,370)	(\$214,475)	(\$219,836)
Fringe benefits	(\$91,440)	(\$112,471)	(\$115,282)
Equipment and expense	<u>(\$231,754)</u>	<u>(\$34,906)</u>	<u>(\$35,352)</u>
Total <u>Cost</u> - DIFP	<u>(\$497,564)</u>	<u>(\$361,852)</u>	<u>(\$370,470)</u>
FTE Change	4 FTE	4 FTE	4 FTE
<b>ESTIMATED NET EFFECT ON MISSOURI CATASTROPHE FUND</b>			
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>
Estimated Net FTE Change for Missouri Catastrophe Fund	4 FTE	4 FTE	4 FTE
<u>FISCAL IMPACT - Local Government</u>			
	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u><b>\$0</b></u>	<u><b>\$0</b></u>	<u><b>\$0</b></u>

FISCAL IMPACT - Small Business

The proposal may impact small businesses if coverage for certain natural disasters, like earthquakes, becomes more readily available and more affordable in areas prone to these types of natural disasters.

HWC:LR:OD

## FISCAL DESCRIPTION

This proposal establishes the Missouri Catastrophe Fund to help pay covered residential property damage insurance claims in the aftermath of an earthquake which affects Missouri homeowners and their property/casualty insurers. The fund, which will consist of premiums paid by insurers, bond revenues, and appropriated state funds, will provide a backstop for insurance companies to insure against covered catastrophic losses to avoid the collapse of the property insurance market in the wake of a major earthquake.

**REIMBURSEMENT PREMIUMS** - Reimbursement premiums for the backstop coverage shall be set by the Director of the Department of Insurance, Financial Institutions and Professional Regulation, who shall select an independent consultant to develop a formula for determining the actuarially indicated premium. The director will calculate premiums based upon the insured values under the insurer's covered policies, as reported annually to the director. In order to provide startup moneys for the administration of the fund, insurers are required to pay to the fund an advance premium of \$1,000.

**APPROPRIATIONS TO OTHER AGENCIES FOR EMERGENCY PREPAREDNESS** - The proposal also allows, in fiscal years in which there are no outstanding obligations of the fund, the General Assembly to make an appropriation (10% to 35% of the fund's investment income) from the catastrophe fund for the purpose of providing funding for local governments, state agencies, public and private educational institutions, and nonprofit organizations to support programs intended to improve catastrophe preparedness, prevent and reduce potential losses from a covered event, provide research into means to prevent and reduce such losses, educate or inform the public as to means to reduce losses from covered events, assist the public in determining the appropriateness of particular upgrades to structures or in the financing of those upgrades, or protect local infrastructure from potential damage from a covered loss. Moneys from the fund shall not be appropriated if the director finds that an appropriation would jeopardize the actuarial soundness of the fund.

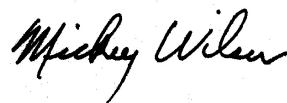
**MISSOURI CATASTROPHE FUND ADVISORY COUNCIL** - The proposal establishes the "Missouri Catastrophe Fund Advisory Council" within the Department of Insurance, Financial and Professional Regulation to provide the director with information and advice in connection with the fund. The advisory council shall be comprised of 13 members who shall be appointed by the governor with the advice and consent of the senate.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -  
    Division of Accounting  
    Division of Budget and Planning  
Department of Insurance, Financial Institutions, and Professional Registration  
Department of Public Safety -  
    State Emergency Management Agency  
Office of the Governor  
Missouri Senate  
Office of Secretary of State

**NOT RESPONDING: Office of State Treasurer**

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
February 22, 2010